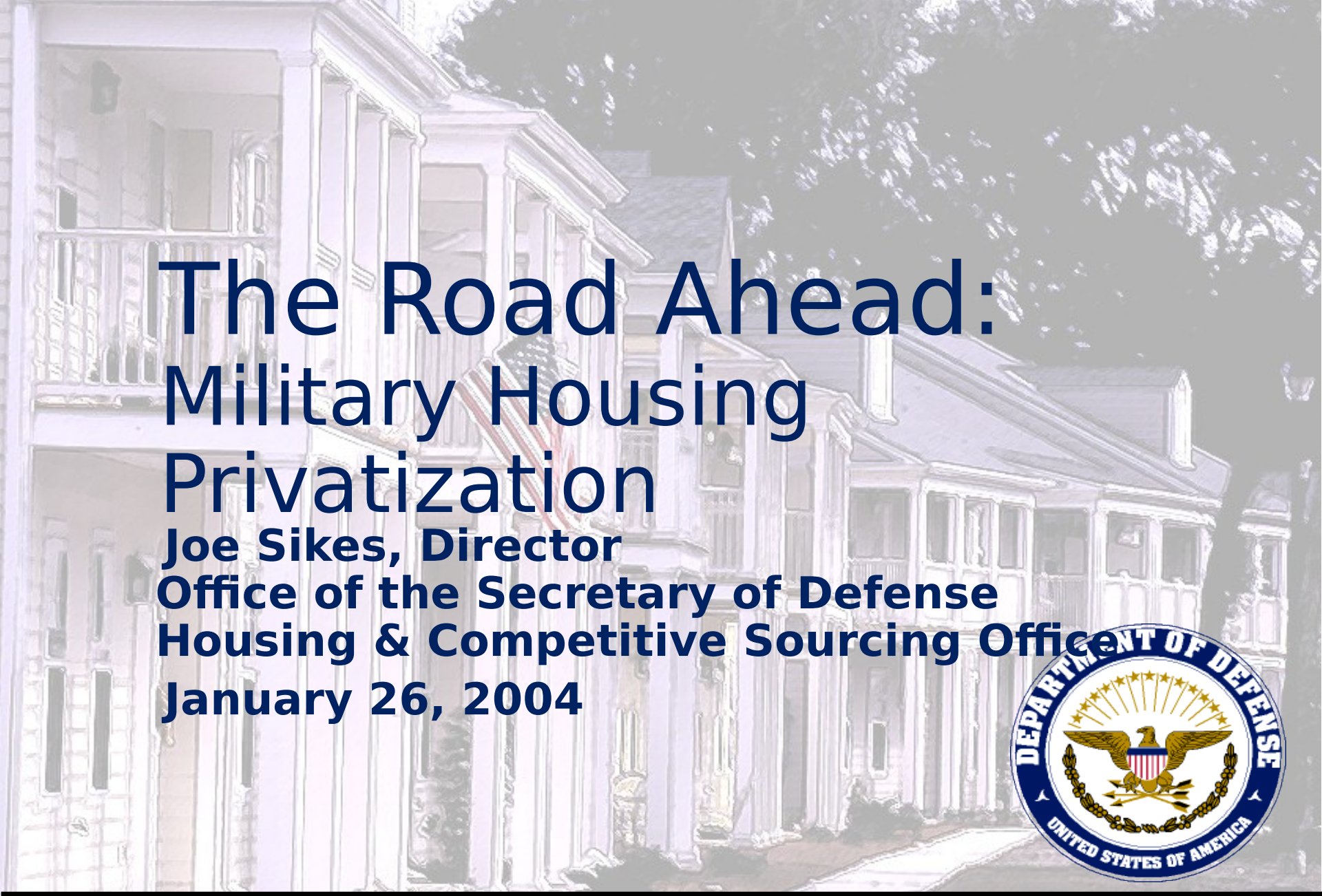


The Road Ahead:
Military Housing Privatization

Joe Sikes, Director
Office of the Secretary of Defense
Housing & Competitive Sourcing Officer

January 26, 2004

DoD's Military Family Housing Program

- Improve Service Members' and their families quality of life by ensuring access to safe, affordable, desirable housing
- Look to the private sector *first* to provide housing for military families
- Revitalize, divest through privatization, or demolish inadequate military family housing by FY 2007
  - *President's Management Agenda Initiative*

Sources of Family Housing

- **Allowances**
  - Increase allowances to eliminate out of pocket by FY 2005
- **Privatization**
  - Pursue on and off base privatization where economically feasible
- **MILCON**
  - Investment where necessary to build and renovate housing

Determination of Family Housing Requirements

- Development and Implementation of the ***Family Housing Requirements Determination Process***
  - Efficient Management of the Military Housing Inventory both in the short-term and long-term
  - Use of a Single and Consistent D0D-wide tool for calculating the Requirement to Retain or Build Government Housing
  - Maximize Reliance on Private Sector Housing
- Housing Requirement Market Analysis (HRMA) estimates the number of military families that can find quality, affordable housing in the community.

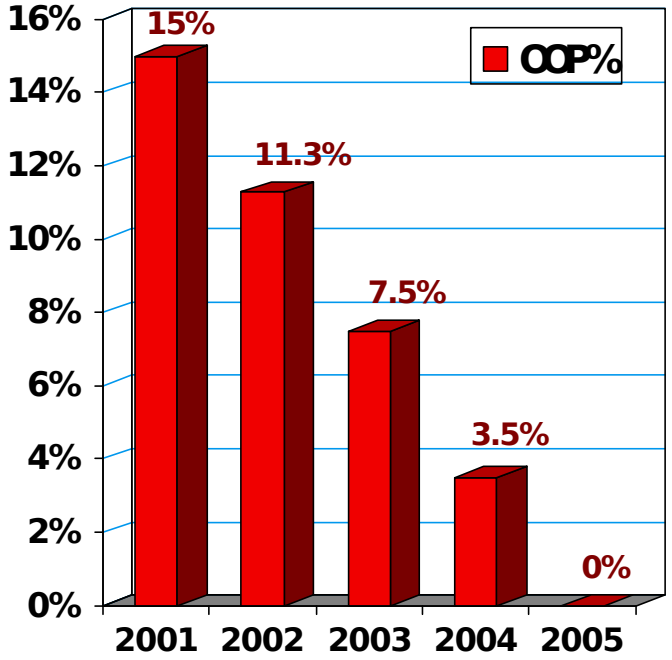
HRMA Methodology

- Establish military family housing requirements, including floor requirement, based on:
  - Military On-Post community
  - Key and Essential Personnel
  - Historic housing
  - Quality of Life
- Assess housing market conditions
  - Quality
  - Supply (rental vs. owner-occupied)
  - Vacancy rates/construction trends
- Determine price/bedroom segmentation parameters
- Estimate market absorption/market response

Family Housing requirements equals floor plus community shortfall

Housing Allowances (BAH)

- 2001 BAH Initiative
  - Designed to provide more accurate housing allowances by basing them on the market price of rental housing
- Service Member Choice
- BAH versus HRMA
  - Two different objectives
    - Identifying median costs vs. counting houses
- BAH and housing privatization
  - Income Stream directly tied to BAH



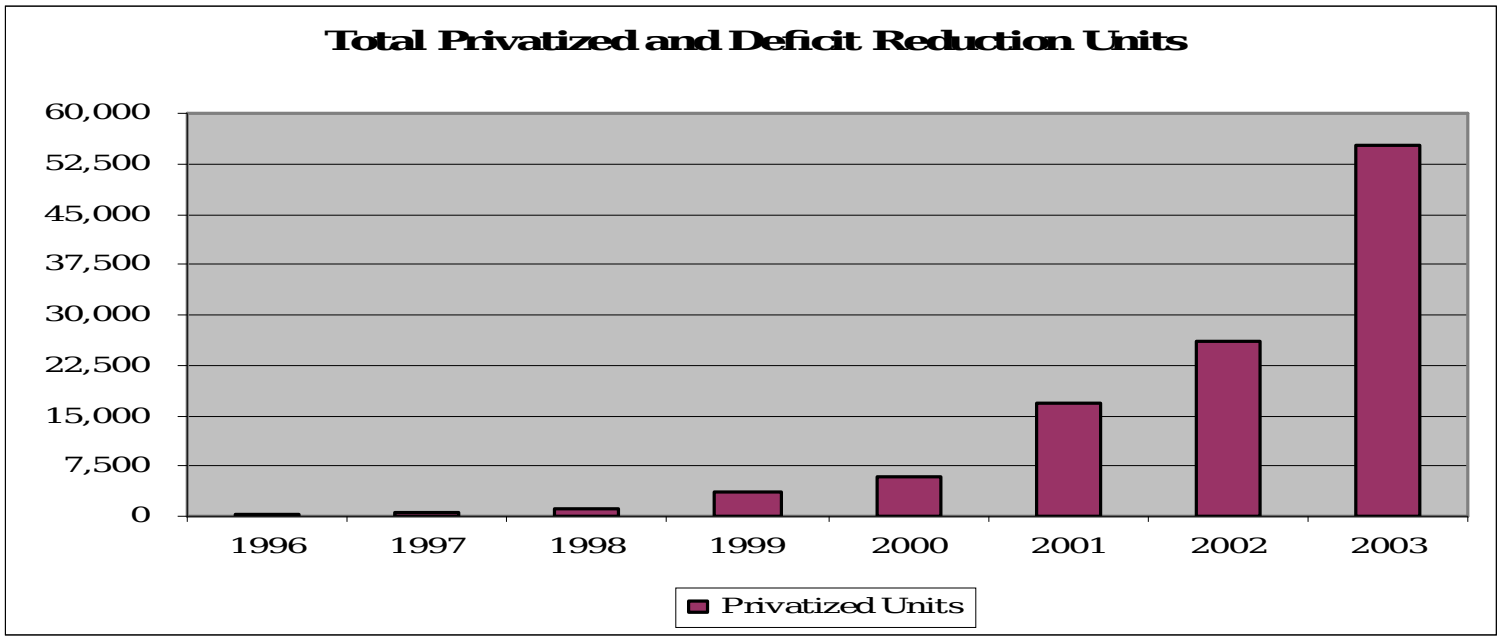
Estimated 90% of Service members will receive BAH

Privatization – Military Family Housing's New Look

- Merging Housing & Housing Privatization
  - Reorganization of OSD functions
    - Single office for all housing functions
      - Family Housing
      - Privatization
      - Barracks
- Paradigm shift in
  - Cultural attitudes and perceptions
  - Roles and responsibilities
- Realignment of resources and focus

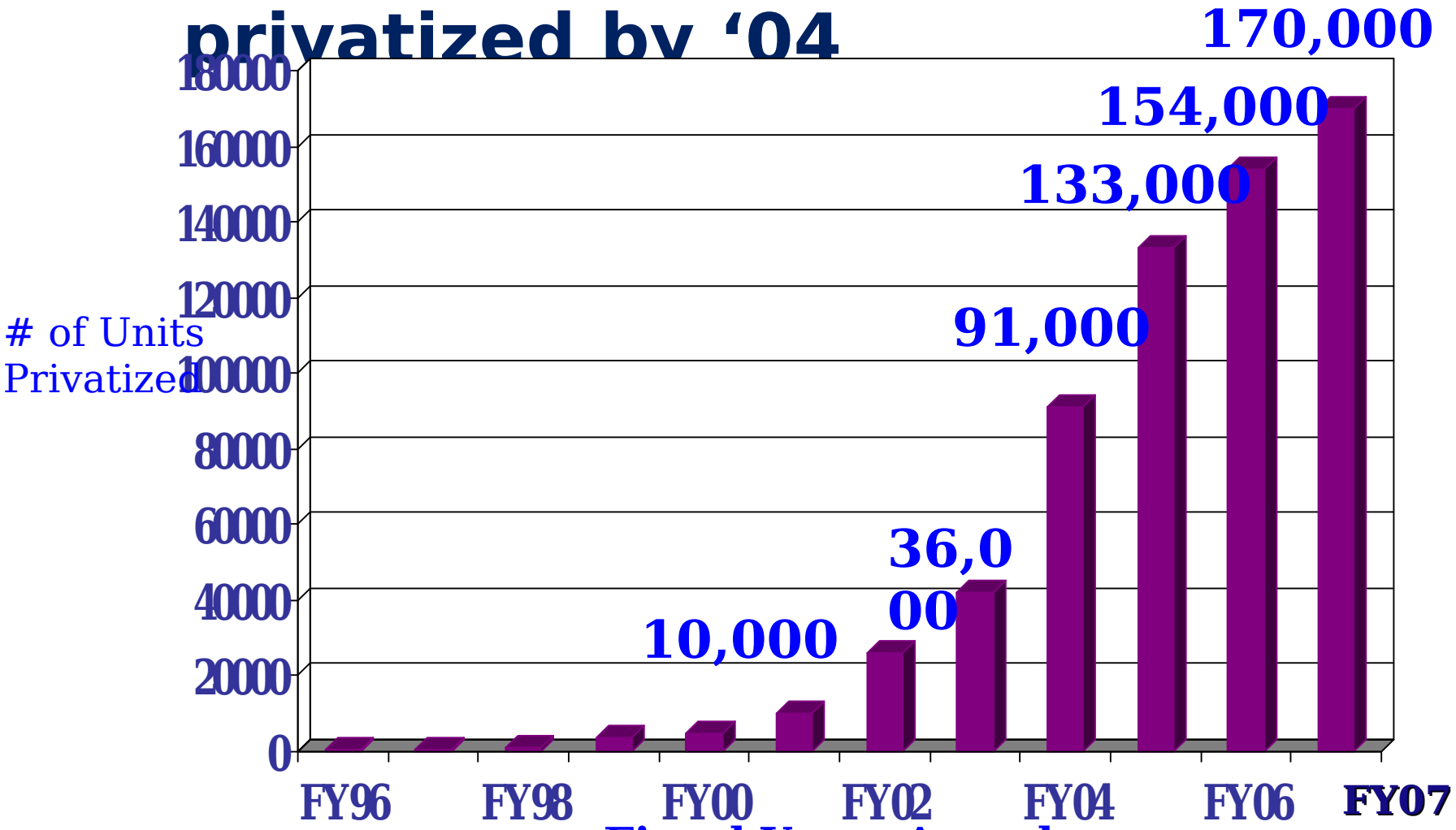
Privatization

- Privatization is the future – over 75% of existing U.S. inventory will be privatized
  - 67% of families in private sector housing
  - 23% of families in privatized housing
  - 10% of families in government owned housing



** as of 30 Dec 2003*

Goal: $91 K housing units privatized by ‘04



MHPI Construction Status

All Services: Privatized Units, Newly Constructed and/or Renovated to Date							
Service	Total privatized units	Total new units to be constructed	Total newly constructed units completed	%New construction units completed	Total units to be renovated	Total units renovation completed	% Renovation units completed
Army	27,218	12,203	1484	12%	11,062	2,176	20%
Navy/MC	16,052	5,523	1,565	28%	5,836	515	9%
Air Force	5,486	3,116	2,911	93%	517	200	39%
Total	**48,756**	**20,842**	**5,960**	**29%**	**17,415**	**2,891**	**17%**

As of 30 October 2003

Budget Scoring Cap

- Original Authorities allowed $850M in appropriated funds to be applied to family housing projects
- We are currently on track to exceed the Cap at end of FY04
- Attempts to raise the Cap has met resistance from CBO
  - Projects are really governmental in nature
  - Cap increase should be on budget based on rate of private capital generated
  - If program leverage is 10:1, a $50M increase requires $500M
- Issue will be under discussion for the FY05 legislative cycle
- We must be careful in how we execute these projects

Privatization Principles

I. Project Scope and Government Subsidy

- The government receives the best value for its contribution….
- A sufficiently certain scope of rental housing…
- And preferred occupancy at specified rents for service members.

Privatization Principles

II. Government Control

- The government protects its interests – ***without*** participating in day-to-day project management.

- Agreements are structured to sufficiently protect government interests – while ***minimizing*** government control and liability.

Privatization Principles

III. Private Sector Ownership and Control

- The development entity owns the property… with all the ***attributes***, ***benefits***, and ***risks*** of that ownership.

- Service members are ***private*** tenants who ***choose*** where to live and pay rent.

Privatization Principles

IV. Private Sector Bears Financial Risk

- The development entity is responsible for all risks common in the market, including insuring its property against fire, flood, and other natural disasters.
  - Development entity does not shift liability to the government
- Minimize creation of private financial risk due to government controls.

Privatization Principles

V. Competition

- Optimal projects are obtained through ***competition*** on price and quality for project's duration

MHPI Project Review Process

- Scope/Structure – concept, award and future
- Valid Housing Requirements
- OSD policy/guidance
  - 3:1 leverage
  - Privatization Life Cycle Cost better than MilCon
  - Maximize private sector debt
- Government involvement and risk minimized

Current Issues

- Schools
  - Impact Aid issue
  - School-based aid programs
  - School loading
  - Mobile Homes
  - Expiration of 801 projects
- Taxation
  - 1996 DoD policy
  - Case-by-case negotiations with states
  - Expanding private sector participation
- Lenders and Developers
  - Maintaining competition
  - Expanding the field
- Small and Local Business
  - Tracking participation data

Legislative Items

- Raising the budget authority cap
- Revolving fund
- Purchase options in the event of BRAC
- Using BRAC property as government contribution
- Exemption from local property taxes
- Korean Housing Pilot Program

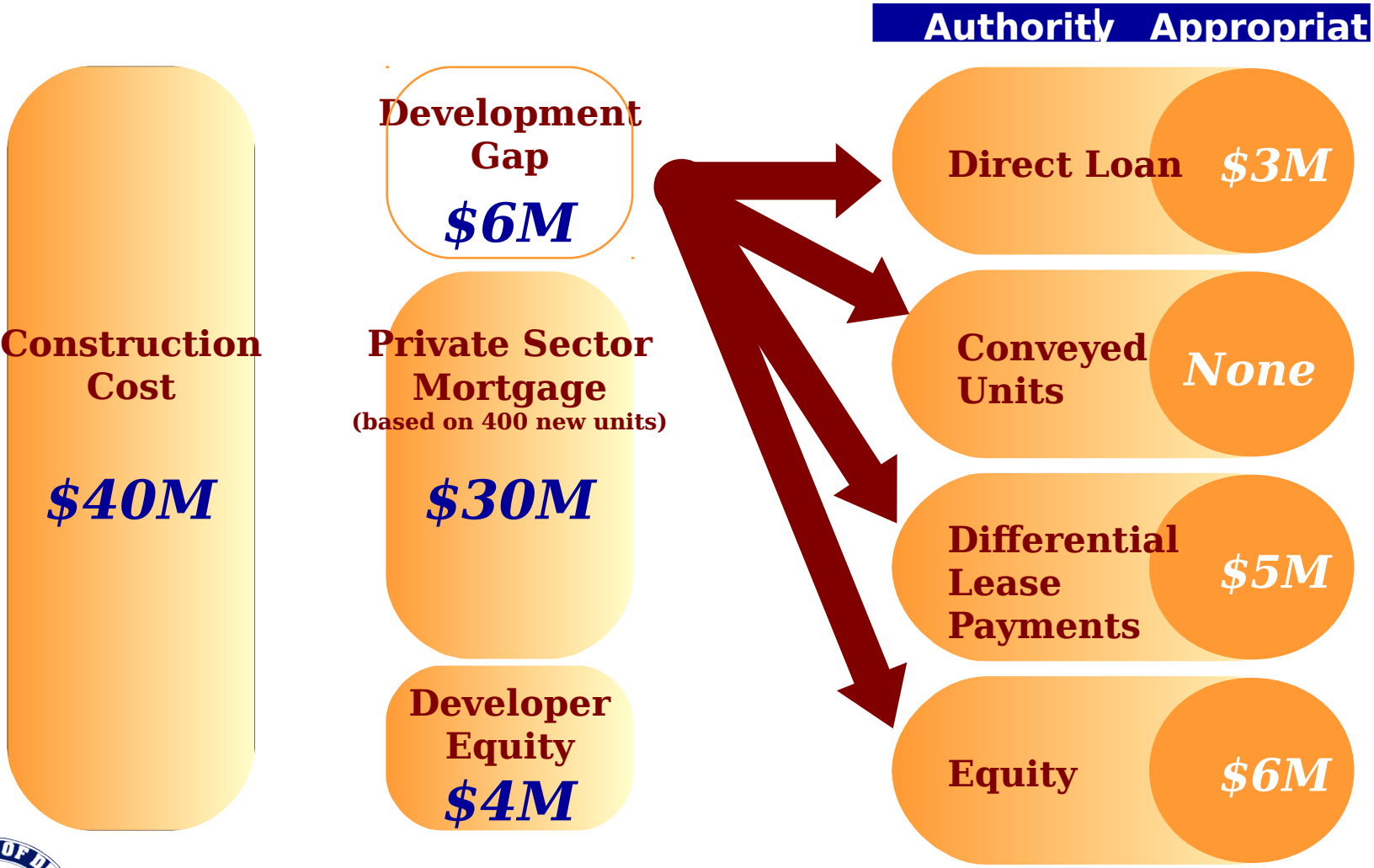
Ensuring the Success of Privatization

- Less Government
  - Unit based versus tenant based rent
  - Managing relationships versus managing housing inventory
- More creative deal structures
  - Combining rich and poor projects
  - Greater flexibility in terms of financial thresholds
- Sharing Resources Across Projects
  - Assets
  - Funds
- Obtaining better information
  - AHRS
  - Surveys
- Ensuring Tenant Satisfaction

We’re privatizing in New Hampshire ... we're privatizing in South Carolina and Oklahoma and Arizona and Texas and New Mexico and Kalifornia ...We're going to Oregon and Washington and Michigan and Florida! Then we're going to Washington, D.C and privatize Ft. Belvoir, Andrews, Annapolis and Quantico. And when we finish all our military bases we going to go down and privatize the White House! ....Yeeeeeeah!"

Back-up Slides

Financial Development Gap



Housing Privatization Policies

- Financially justified
  - Leverage at least 3:1
  - Life cycle cost equal to or better than Milcon
  - 2nd mortgage less than 1st mortgage
  - Utility and tax treatment
- Valid Housing Requirements
  - Housing Requirements Market Analysis
- Ensure competition
- Effective long-term monitoring…*not managing*